Remarks of
Commissioner Linda K. Breathitt
Federal Energy Regulatory Commission

Toronto Board of Trade

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Canada

Good morning. It's a pleasure being with you on my first visit to your great city. I think your "power breakfast" series is a good idea and given how important developing energy markets and restructuring issues are, it's no wonder that the series is a big success.

Electricity markets have never been as vibrant and important as they are today. What we are seeing in the United States—and I believe that you are seeing some of the same things in Canada—is an unprecedented volume of trading by numerous types of entities, from power marketers and brokers to independent power generators and from large wholesale customers to smaller retail customers. All of whom are enjoying the benefits of a competitive and open electricity marketplace.

This is an important time for Toronto and the rest of Ontario. This year will mark the introduction of competitive electric markets here, and with that will come incredible opportunities, as well as some interesting challenges.

In the United States, the federal government has been balancing these opportunities and challenges for several years as we have opened the wholesale electricity markets to competition. And many state governments and legislatures have been

grappling with these issues as they open their retail markets to competition. I can tell you that it can be a bumpy road at times, but a road that is necessary to take nonetheless.

Four years ago, the Federal Energy Regulatory Commission issued two groundbreaking orders, Order Nos. 888 and 889, which established the foundation for competitive wholesale power markets in the United States. With these rules, the Commission ordered all transmission-owning public utilities to open up their transmission systems to allow them to be used on a non-discriminatory basis by all wholesale electricity customers. The Commission's goal was to ensure that customers have the benefits of competitively priced generation.

In the four years since those orders were issued, several significant developments have occurred in the U. S. electric utility industry. I'd like to briefly describe three of these developments that have accompanied the emergence of competitive markets. These developments are: the rapid development of new generation resources; the significant growth in the volume of trading; and the new stresses that are being placed on the transmission system as a result of this increased usage.

First, the availability of open access tariffs and more transparent information about transmission capacity and prices has fostered a growth in new generation resources. This is an important development for regions such as the Northeast Power Coordinating Council, which includes New England, New York, and parts of eastern Canada. When

the Commission issued its orders in 1996, this region suffered from a lack of generation supply. Now, only four years later, approximately 30,000 megawatts of generation is proposed or is actually under construction. This new capacity is coming almost entirely from independent generating plants (or merchant plants) which are now able to sell power into the bulk market through open access to the transmission system.

And what's happening in the Northeast region is happening elsewhere around the country. Having new generation capacity is important since an increase in the supply of generation in the marketplace should result in a lowering of wholesale prices for customers. Such a reduction in wholesale prices will obviously be a beneficial development for retail customers, as well.

The second major development we are seeing in the United States as a result of open access is a significant growth in the volume of trading in the wholesale electricity market. This growth is coming primarily from power marketers. According to filings made by power marketers to the Commission, in the first quarter of 1995, sales of about 1.8 million megawatt-hours were reported by eight active power marketers.

By contrast, during the first quarter of 1999, such sales escalated to over 400 million megawatt-hours, and trading was performed by over 100 power marketers. And these are only the active power marketers. To date, the Commission has granted market-

based rate authority to more than 800 entities. Nearly 500 of these are power marketers. So, as you can see, the sheer increases in trading volumes and the number of entities trading in the marketplace have been dramatic.

And to further dramatize my point that competition in U. S. electric markets is really happening, I note that a recent report on the "North American Wholesale Energy Marketing Industry," issued by the marketing and consulting firm Frost & Sullivan, states that total revenues from wholesale energy marketing will see a double-digit compounded annual growth rate over the 1998-2005 period. According to the report, these increases in wholesale marketing volumes are attributable, in part, to the dramatic increases in merchant power generation development. The report states that "deregulation has allowed the number of merchant plants to multiply in North America. Because these plants generate electricity solely for the sale in the competitive wholesale market, expansion of this field will drive growth in the power marketing industry."

As is so often the case, however, the benefits resulting from these soaring sales figures and increases in generation capacity, have come with a price. For the U. S., that price has been new stresses and strain placed on the transmission grid by the increased usage of the system.

We are seeing an increase in the curtailment of energy transactions that occur on

overloaded transmission lines. In fact, in the first ten months of 1999, over 400 instances of curtailment were reported. During the summer of 1999, 8000 megawatts of power was curtailed. Obviously, this level of curtailment is not beneficial to the development of competitive markets and will likely worsen as transaction volumes increase even more. The Commission is aware of this situation and is taking steps to address it.

One solution that could alleviate some of these system overloads would be the construction of new transmission facilities. Unfortunately, it appears that the planning and construction of new transmission lines are not keeping up with the increased usage. According to the North American Electric Reliability Council (NERC), "business is increasing on the transmission system, but very little is being done to increase the load serving and transfer capability of the bulk transmission system." Obviously, this transmission shortage situation poses a significant challenge to the U.S. electricity market, and one that we're committed to addressing in the near term.

The reason that I've recounted for you these three recent developments in the U. S. electricity market, is to stress that increased competition is beneficial, but can present some interesting challenges. I want to point out that as Ontario, and from an even broader perspective, all of Canada, addresses the challenges of its increasingly competitive electricity markets, you will not be going it alone. There is increasingly an awareness of the important opportunities of cross-border cooperation and coordination between the U. S. and Canada.

We've known for a long time that a tremendous amount of power is traded back and forth across the border. But what we're just beginning to appreciate, however, is that the international nature of power transactions and the similar market restructuring and developments that are occurring in both Canada and the U.S. will increase the need for cross-border collaboration.

FERC recognized this need in our recently issued Final Rule on Regional Transmission Organizations, or RTOs. In this broad and far-reaching rulemaking, the Commission stated its intention that all transmission-owning entities in the United States should participate in independent RTOs in a timely manner. An example of an RTO-like entity would be the Ontario IMO, which I believe is similar to the independent system operators (or ISOs) that exist in the U. S.

Our rule discusses, at some length, the participation by Canadian entities in the formation of RTOs. For instance, we found that since electricity trading regions exist across national borders, the involvement of Canadian entities would be beneficial to both countries. The rule encourages these Canadian entities to participate in the regional collaborative workshops that will begin on March 1. These workshops are designed to bring together transmission-owning utilities, state government officials, Commission staff and other affected market participants to discuss the formation of RTOs around the country.

We note in our rule that these workshops will provide a forum for an initial discussion of the issues associated with cross-border RTOs. In response to several Canadian entities that provided comments to the Commission during the formation of its Final Rule, we acknowledge the sovereign authority of Canadian governments over Canadian entities and transactions that take place in Canada. Nevertheless, we continue to believe that expansion of electricity trade in the North American bulk power market requires that regional institutions include all market participants so that everyone may enjoy direct access to market information and the benefits of non-pancaked transmission rates.

We were pleased to receive helpful input from several Canadian entities during this process, including Ontario Power and the Ontario IMO. Ontario Power and others agreed that significant benefits can be achieved by trading over "natural" transmission regions that do not necessarily stop at the border. Ontario IMO and others welcome the opportunity to participate in the RTO proceedings and support the Commission's efforts to encourage international collaboration.

Last November, FERC Chairman James Hoecker traveled to Ottawa to meet with top-level Canadian officials and to address a workshop on RTOs hosted by Natural Resources Canada. While in Canada, Chairman Hoecker stressed that Canadian and American electricity consumers "live in a common market for power." He added that as the U. S. pushes ahead in developing more efficient regional markets domestically,

transmission operations all over the integrated continental market will necessarily be affected. In addition, he said that "It makes sense for the American and Canadian markets to work in sync, to plan jointly for expansion, congestion management, and bulk power pricing."

I would like to take this opportunity to state my agreement with the sentiments expressed by Chairman Hoecker. I encourage interested Canadian entities to participate in our collaborative process (which, by the way, is described in greater detail on the Commission's website: www.ferc.fed.us). I also encourage Canadian entities to work and communicate with their counterparts in the U. S. to resolve cross-border issues related to the efficient transmission of electricity and the formation of RTOs.

In conclusion, let me say how pleased I am that Canada and the United States are proceeding down similar paths toward the restructuring of their electric industries and opening of competitive markets. The opportunities we have now for mutual cooperation and collaboration on these energy issues are stronger than ever. I am certain that our two countries will take advantage of these opportunities in order to develop efficient regional markets.

I wish Ontario and all of the market participants here a successful implementation of electricity competition. And let me remind you that the bumps that you may hit along

the way are well worth it in the long-run.

Thank you.